

APPENDIX B: HOUSING NEEDS ASSESSMENT

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INTRODUCTION

The Housing Element is one of seven state-mandated elements of the General Plan. The Housing Element contains a comprehensive list of information regarding housing needs and the existing housing stock as presented in the Housing Needs Assessment. Section 65583(a) of the Housing Element Law states that the housing element must contain an "analysis and documentation of household characteristics, including level of payment compared to ability to pay, housing characteristics, including overcrowding, and housing stock condition." The Housing Needs Assessment fulfills this requirement.

The Housing Needs Assessment provides background information on the housing needs and conditions in the City in order to prepare goals and policies that will adequately meet the needs of the community. The 2000 U.S. Census results have just begun to be released and will continue to be disseminated through 2002. As information becomes available, it will be incorporated into the City's Housing Element. It is likely that the basic thrust of this report will not change as a result of new data, but the order of magnitude of the problems and relative needs may shift. As such, this report should be considered a work-in-progress. The data presented in the Housing Needs Assessment will not only guide the development of housing goals and policies, but will also be integrated into the body of the Housing Element to present the current status of housing and housing related issues in Morgan Hill.

This assessment is organized into four data sections. The first section focuses on demographic information such as population size, ethnicity, age, household type, income, employment, housing characteristics, general housing needs by income, and special housing needs for specialized segments of the population. This first section basically outlines the characteristics of the community, and identifies those characteristics that may have significant impacts on housing needs in the community.

The second section identifies the City's resources, the historic development pattern, and areas of housing opportunity in the community. It also identifies special housing and other housing resources that are characteristic of the City, and that provide both opportunities and potential constraints to the growth and maintenance of the housing stock in Morgan Hill.

The next section discusses the governmental and non-governmental constraints to housing development in the City. The City has building standards that can limit the amount or location of housing in certain areas, or that can result in fees that make certain types of housing infeasible. In addition, there are environmental constraints that cause housing limitations. Non-governmental constraints such as the housing market, financing, and construction costs also limit housing growth in Morgan Hill.

The final section of the Needs Assessment discusses opportunities for energy conservation, which can reduce homeowner costs, and infrastructure costs to the City. With a reduction in basic living costs through energy savings, more households will be better able to afford adequate housing.

Combined, these sections provide an analysis and documentation of the community's characteristics and needs, and identifies potential constraints to meeting the community's needs adequately.

SUMMARY OF FINDINGS

Population Growth and Characteristics

- Morgan Hill's population is expected to grow steadily over the next 20 years, continuing the demand for a variety of housing types and costs. The rate of population growth is anticipated to continue due to the Residential Development Control System (RDCS), which regulates residential development. The City's population projections through 2020 are higher than those of the Association of Bay Area Governments.
- Morgan Hill's ethnic composition is similar to that countywide, with the exception of a significantly lower percentage of residents of Asian origin. The slightly larger percentage of residents of Hispanic origin than countywide is likely due to the City's location in an active agricultural area in southern Santa Clara County. The City has a slightly larger percentage of residents employed in agriculture-related industries than the countywide population (see Employment Trends below).
- Morgan Hill has a slightly higher percentage of children, a slightly lower percentage of seniors, and larger average household size than the countywide or statewide populations. Morgan Hill also has a higher percentage of families with children, reflecting the City's attractiveness for such households. As southern Santa Clara County continues to urbanize, and Morgan Hill continues to grow, one result could be a gradual increase in households without children and non-family households. This is particularly true if current families remain in Morgan Hill after their children are grown.

Income and Poverty

- Morgan Hill is somewhat more affluent than the countywide population. The median income in the City is over ten percent higher than countywide, and about twelve percent fewer city residents have very low- or low-incomes than the countywide population. At the time this document was prepared, 2000 Census data on income had not yet been released to compare trends in city versus county incomes.
- The poverty rate in Morgan Hill was about five percent in 1990, below the countywide level of eight percent. Poverty rates among most Morgan Hill residents were generally low, with the exception of persons of Hispanic origin and some other ethnic minorities in the City. Female-headed households with children, primarily single mothers, had the highest poverty rate of any group in Morgan Hill, about 20 percent in 1990.

Employment Trends

- Employment data from the U. S. Census and the California Employment Development Department (EDD) suggest that the majority of Morgan Hill residents are employed in administrative, technical, professional, and managerial jobs. The top employers in Morgan Hill are a combination of public agencies,

technology firms, construction enterprises, retail establishments, and specialty manufacturers. According to ABAG, job growth is expected to be 70 percent between 2000 and 2020 in the City. According to EDD, technology firms are expected to create the highest number of new jobs countywide over the next several years.

- Workers in most industries with significant job growth over the next decade will have either above moderate-incomes or low- to very-low incomes. There appears to be a widening gap, therefore, among wages and incomes.

Special Needs

- Morgan Hill has a number of special housing needs, primary among these among are older adults, families with low-incomes, and persons with disabilities.
- As the current population ages, Morgan Hill can expect to experience an increase in the number of older adults with special housing needs over the next 20 years. Although senior housing needs are not a large issue in Morgan Hill, the most critical housing-related needs among seniors appear to be: financial support for low-income seniors who do not own their homes, assistance with home maintenance expenses for low-income senior homeowners, and assisted care for seniors who have self-care and mobility limitations.
- Non-elderly individuals with disabilities also have financial and physical needs. Although the number of such individuals represents a small percentage of all residents, their needs frequently remain unmet by the private market.
- Large families with low incomes are particularly subject to high housing costs as there are few affordable homes in sound conditions with adequate space to prevent overcrowding.
- Poverty rates are low for most population groups in the City; however, female-headed households with children have a high poverty rate (20 percent). Although female householders with children do not comprise a large proportion of the City's population, housing assistance programs and projects may help reduce poverty levels.
- Persons employed in agriculture are a small percentage of the total Morgan Hill population but are likely to have lower incomes and find it difficult to obtain affordable housing. Although they represent a very small percent of the population, farmworker families will likely have significant unmet housing needs because low wages tend to place them in the very low- and low-income categories. As a result, they have a higher probability of being impacted by substandard housing conditions and overcrowding.
- Homelessness does not appear to be a significant problem in Morgan Hill, but there are homeless persons in the City nonetheless. Contacts with social service organizations and others dealing with emergency housing and the homeless on a daily basis estimate suggest that there are approximately 80 homeless persons in the City of Morgan Hill. Some of these homeless may be travelers who are temporarily stranded, since Highway 101 is a major transportation route.

Housing Characteristics

- About two-thirds of the City's housing stock consists of single-family detached homes, compared to less than sixty percent countywide. Nearly three-fourths of Morgan Hill residents own their homes, compared to 60 percent countywide. Homeownership is highest among adults 65 years of age or more, 80 percent. The composition of the City's housing stock is consistent with the characteristics of a lower density suburban community.
- 2137 housing units were added to City's housing stock between 1999 and 2005, an increase of 21.7 percent. Nearly half (44 percent) of these housing units were affordable to very low-, low-, or moderate-income households.
- Morgan Hill's housing stock is in good shape, overall. About 85 percent of the housing units in the City were constructed since 1970. There are several older neighborhoods in which a significant number of dwelling units may need varying degrees of repair, from deferred maintenance to replacement. The City estimates that less than ten percent of the housing stock needs deferred maintenance or rehabilitation, and less than one percent needs replacement.
- About seven percent of Morgan Hill households lived in overcrowded conditions (more than one person per room) in 1990, the most recent year for which Census data is available. By comparison, Santa Clara County experienced an 11 percent overcrowding rate in 1990. Overcrowding in Morgan Hill occurred more often in rental housing (17 percent) than owner-occupied housing (3 percent), suggesting that there were a significant number of large families who could not afford to purchase a home or find affordable rental housing of sufficient size.

Housing Costs and Affordability

- Historically, housing costs in Morgan Hill have been lower than the countywide average. However, the median housing price in Morgan Hill actually exceeded the countywide average, \$475,000 to \$462,000, in August 2001. Month-to-month prices can vary significantly, but the trend over the past several years appears to be that housing prices are rising faster in Morgan Hill than countywide.
- Costs for rental housing in Morgan Hill also exceed those countywide. Apartment rents range from about \$500 for a one-bedroom unit to nearly \$1,600 for a four-bedroom unit. Average rents for one- and two-bedroom apartment are between \$1,000 and \$1,300. Rents for houses and townhomes range from \$1,400 for a two-bedroom home to over \$5,000 for a four-bedroom home.
- The affordability of housing in Morgan Hill has been an issue of concern for many years, but the magnitude of the problem has become especially critical over the past few years. The problem of housing affordability does not affect Morgan Hill alone, but is a regional problem, especially evident in Santa Clara County. With a slowing real estate market, prices have stabilized and are starting to decrease, but the employment rate and income level is also decreasing.
- Those at the lowest-end of the income spectrum are experiencing the greatest financial distress as a result. The City estimates that only 21 percent of very low-

income residents can afford a rental unit in Morgan Hill (measured as 30 percent of a household's gross income). In 1990, even most low-income renters did not have affordable housing, although a comparison of current rents with income levels suggests that most low-income households earning more than 65 percent of the countywide median income can find affordable rental housing. The situation is much better for many moderate-income households, with the majority of these households being able to find housing within an affordable cost range.

- Homeownership is out-of-reach financially for nearly all lower-income and most moderate-income households. About ten percent of low- or moderate-income households can afford to purchase a home in Morgan Hill.
- As a result of the rapid increase in higher paying jobs and the attractiveness of Morgan Hill as a residential community, housing cost and availability to lower- and moderate-income households has not kept pace with demand. Not only has this created a larger number of households for whom housing has become less affordable, but it has also widened the gap between the price of shelter and the income necessary to afford housing. Therefore, a meaningful housing strategy will require that there be a realistic assessment of the availability of programs and fiscal resources and a careful prioritization of the needs that are to be met.

Opportunities and Constraints

- Most of the remaining land available for development is located on the valley floor and is served by infrastructure. Some sites remain that may be suitable for higher density housing, infill, or mixed-use developments, particularly in the City's redevelopment plan area. The cost of land, the cost of construction, and impacts on established surrounding neighborhoods, may limit the financial feasibility of, and the locational options for developing affordable housing. However, re-use potential of some sites in Morgan Hill, Redevelopment Agency funding, the availability of some vacant parcels for higher density housing, and the City affordable housing preferences under the RDCS, can create incentives for the production of affordable housing. According to the City's records, 957 affordable housing units were produced or under construction between 1999 and 2005.
- The RDCS limits the number of new units that may be constructed in the City each year. Based on a percentage of the current population level, the City permits approximately 250 allotments annually. Projects compete for approval based on a number of factors including design, location, housing type, and provision of affordable units. Projects containing 100 percent affordable units participate in a separate competition established for such projects.
- Although the City has developed land use controls for environmentally sensitive areas of the City, few residential lands are located in environmentally sensitive areas. Environmental constraints are not significant in Morgan Hill, therefore.

HOUSING NEEDS ASSESSMENT

POPULATION CHARACTERISTICS

Population

With the opening of Highway 101 in the late 1970s, Morgan Hill became an attractive City for commuters. Morgan Hill's population boom has experienced slower yet steadier population growth since the late 1970s due to implementation of a Residential Development Control System (RDCS) that limits growth in the City. Under the RDCS, approximately 175 new residential development project permits are currently issued each year. At least 20 percent of the allocations are set-aside for 100 percent affordable units. Of the remaining 80 percent of the allocations, affordable units are included in the competitive RDCS allocation where more points are given to projects including affordable units than to projects without affordable units, with 10 percent of the allocations having some affordable units. Although this limits the total number of units affordable to all income levels, it ensures that a portion of units receiving approval provide housing for moderate- and lower-income households. As a result of the RDCS, population growth has been steady throughout the 1990s. Changes in household composition related to age and the percentage of households with children have also had an influence on Morgan Hill's population.

Since 1990, the City's population has increased about 29 percent, more than the growth rate (11 percent) for Santa Clara County overall. According to the U.S. Census Bureau, the City's population was 23,928 in 1990 and 33,556 in 2000. City projections for population growth differ from the Association of Bay Area Governments (ABAG) projections as the City has taken the RDCS into consideration. Table 1 shows the difference between City and ABAG projections. Between 2005 and 2020, the City projects a 24 percent growth rate, compared to a 15 percent growth rate projected by ABAG. The City's projections are actually higher than ABAG's projections because the City projects better economic conditions in Morgan Hill than ABAG, which would result in higher demand for residency in the area.

Table 1

Morgan Hill Population Projections

Year	City RDCS Projections	ABAG Projections
2005	36,500	35,600
2010	38,800	39,300
2015	43,400	40,900
2020	48,000	42,900

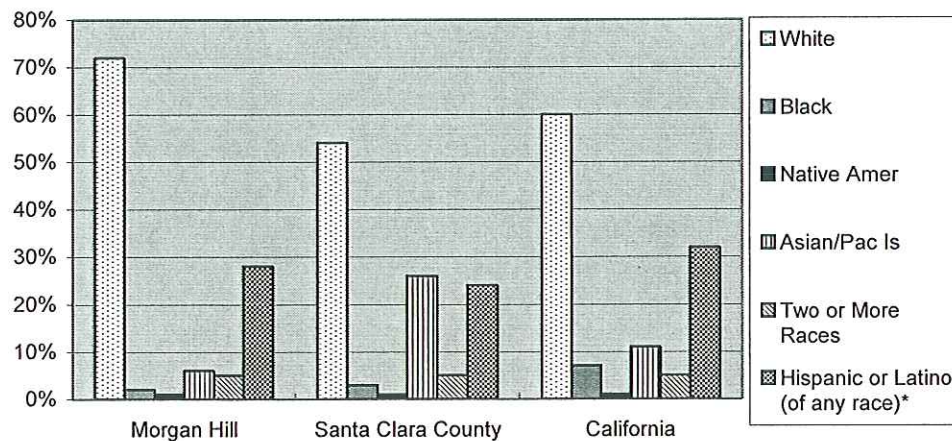
Source: Association of Bay Area Governments
Projections 2005 and Morgan Hill General Plan,
2000.

Ethnicity

In 2000, the relative proportions of the various ethnic groups in Morgan Hill varied significantly from those of other cities in Santa Clara County and from the state as a whole. While persons of Hispanic origin comprise about one-quarter of the countywide population and over one-third of the statewide population, such individuals comprise 28 percent of the City's population. Similarly, other minority groups representing large segments of the countywide and statewide populations consist of less than one-quarter of the city's population. Asian and Pacific Islanders comprise 6 percent of Morgan Hill's population, compared to 26 percent of the population within Santa Clara County and 11 percent statewide. Figure 1 compares ethnicity on a citywide, countywide, and statewide basis.

Figure 1

Comparison of Race by City, County, and State Population (2000)



Source: 2000 U.S. Census.

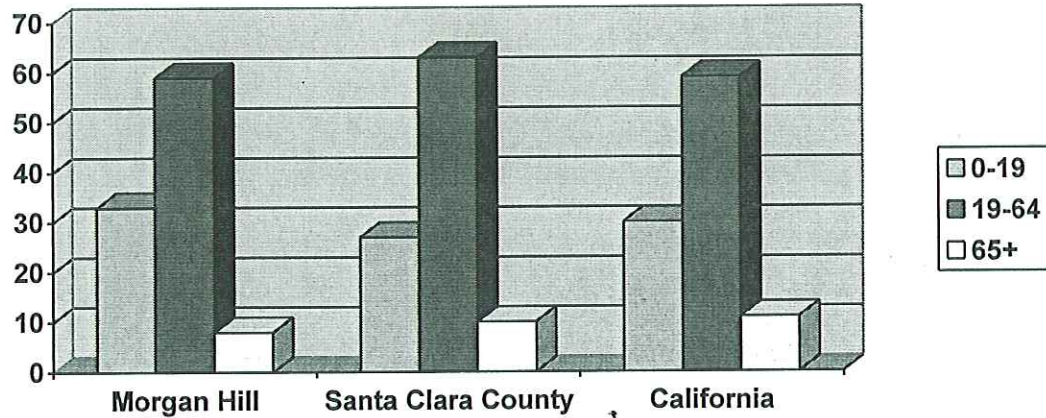
*Population of Hispanic origin is not a racial category and is included as a percentage of the other population groups.

Age

The age distribution in Morgan Hill is similar to the population of Santa Clara County as a whole, with a higher number of children living in the City and a lower number of working-age adults (Figure 2). The percentage of City residents 65 years of age or more and 24 years of age or less has remained approximately the same in Morgan Hill since 1990. The primary change in age between 1990 and 2000 results from an increase in the proportion of younger working-age adults (age 25-44) and a decrease in the proportion of older working-age adults (45-59). Although those age 45 to 59 represented a lower proportion of the population in 2000, this age group actually experienced the largest growth rate between 1990 and 2000, as did seniors age 85 and older. This suggests that new economic opportunity has drawn working-age adults into the area and that lengthening of the average lifespan has retained older residents. The City's median age is the same as in the county (34.0) but slightly higher than in the state (33.3).

Figure 2

2000 Age Distribution (percent)



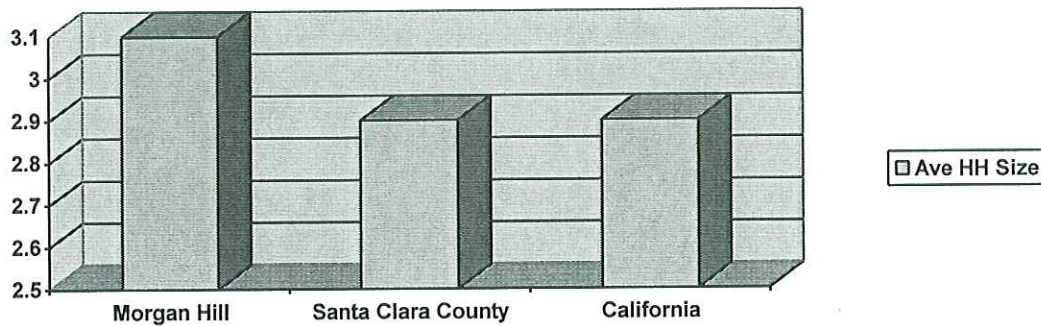
Source: 2000 U.S. Census.

Households

According to 2000 U.S. Census figures, Morgan Hill has a larger percentage of family households than in the county or state for the same period. Morgan Hill has experienced a slight increase in household size since 1990, increasing from 3.0 to 3.1 over the 10-year period. Figure 3 compares average household sizes in Morgan Hill, Santa Clara County, and California for 2000. U.S. Census household figures for 2000 show that the average household size in Morgan Hill is now only slightly higher than Santa Clara County and the average statewide household size. ABAG projects the average household size in Morgan Hill will decrease to 2.86 persons per household by 2020.

Figure 3

Average Household Size (2000)



Source: 2000 U.S. Census.

Of the 10,846 households reported in Morgan Hill in 2000, 80 percent were family households, of which 63 percent were married-couple families. Fifty-five percent (4,769) of the 8,628 family households had children less than 18 years of age. Of the 4,769 families with children under age 18, approximately 23 percent were single-parent households, two-thirds of which were single mothers. The proportion of single-parent households in Morgan Hill in relation to all households with children was above the countywide level (20 percent) but below the statewide level (27 percent). Approximately 20 percent of the households in Morgan Hill were non-family households, of which 74 percent were persons living alone. Over one-third of those persons living alone were senior citizens, however, this only accounts for 6 percent of the total number of households in the City. The proportion of different types of households in Morgan Hill, in conjunction with the age distribution and household sizes, suggests a community with a higher proportion of family households and children.

INCOME CHARACTERISTICS

According to the 1990 census, the median household income in Morgan Hill was \$53,480. This was above the county median of \$48,115. Federal income guidelines for participation in various housing subsidy programs (HUD), is based on the size of a household's income relative to the median income for the area. For a family of four, the median income was estimated to be \$87,300 in Santa Clara County in 2001. The Federal government does not provide income guidelines or estimates for individual cities, and 2000 Census information is not available at this time during the Housing Element update.

In evaluating income levels, four standard measures are often used: "very low-income," "low-income," "moderate-income," and "above moderate-income." These income levels are expressed as a percentage of the median income (the mid-point at which half of all households earn more and half earn less) and are usually adjusted for household size.

Thus, a "low-income" household of four has a higher income than a "low-income" household of two. Income limits for households in Morgan Hill in 2001 are shown in Table 2. An income below \$48,350 for a single person was considered low-income according to HUD. An income of \$91,150 for an eight-person household was also considered low-income.

Table 2

Santa Clara County Household Income Limits (2001)

Household Size	Extremely Low-Income (30% of Median)	Very Low-Income (50% of Median)	Low-Income (80% of Median)
1 Person	\$18,350	\$30,550	\$48,350
2 Persons	\$20,950	\$34,900	\$55,250
3 Persons	\$23,550	\$39,300	\$62,150
4 Persons	\$26,200	\$43,650	\$69,050
5 Persons	\$28,300	\$47,150	\$74,550
6 Persons	\$30,400	\$50,650	\$80,100
7 Persons	\$32,500	\$54,150	\$85,600
8 Persons	\$34,550	\$57,600	\$91,150

Source: HUD 2001 Income Guidelines.

In a normally distributed population (that is, one not skewed to either end of the income scale), approximately 40 percent of the population will have incomes within the very low- and low-income ranges, about 20 percent within the moderate-income range, and about 40 percent in the above moderate-income range. A substantial dispersion of income within the City is around the median. Still, nearly half of Morgan Hill residents earned above moderate incomes in 2001 as defined below. Morgan Hill has a larger relative percentage of above moderate-income households and a smaller percentage of moderate- and low-income households in relation to the countywide income distribution, indicating that City residents are somewhat more prosperous than the average household countywide.

Table 3 shows the number of households in each income group in 2001. Figure 4 shows that nearly half (46 percent or 5,052 households) of Morgan Hill households had above moderate- incomes in 2001, while just over one-third (35 percent) had very low- or low-incomes, based on Claritas estimates. Approximately 2,086 households, or 19 percent, were very low-income, and 1,977 households or 18 percent, were low-income households. Moderate-income households comprised 17 percent of the households in Morgan Hill, or 1,867 households. Claritas estimates the median income in the City is \$91,356 in 2001. Although complete citywide census update data is not available for 2000, economic trends related to employment, property values, and rising home prices suggest that households who have moved to Morgan Hill since 1990 have higher average incomes than long-term residents. Unknown is whether incomes are rising faster in Morgan Hill than countywide. If the 2000 Census confirms this hypothesis, then

the gap between countywide incomes and incomes among Morgan Hill residents has widened further, as the gap between city and county housing prices has also increased.

Although 2000 Census information was not available to compare changes in income since 1990, the Federal government estimates median income levels annually in each metropolitan area in the country for the purpose of establishing income limits for eligibility for various Federal assistance programs. In 2001, the Federal government estimated that the median income for a three-person household (the approximate average household size in Santa Clara County) was \$78,600. The median income level for a four-person household was approximately \$87,300. HUD establishes these estimates to show how income limits within each income group can vary based on the number of persons within a household, with larger households requiring larger incomes than small households. These estimates can be used to determine a more accurate depiction of a household's ability to afford adequately sized housing.

Table 3

2001 Morgan Hill Household Income

Income	Percent of Households
Less than \$5,000	1%
\$5,000 - \$14,999	4%
\$15,000 - \$24,999	5%
\$25,000 - \$34,999	4%
\$35,000 - \$49,999	10%
\$50,000 - \$54,999	3%
\$55,000 - \$59,999	3%
\$60,000 - \$74,999	10%
\$75,000 - \$99,999	14%
\$100,000 - \$124,000	11%
\$125,000 - \$149,000	9%
\$150,000 - \$249,000	21%
\$250,000 - \$499,000	4%
\$500,000 or more	1%

Source: Claritas, 2001

INCOME DEFINITIONS (2001):

Very low-income = 50% or less of the Santa Clara County median income (\$43,559).

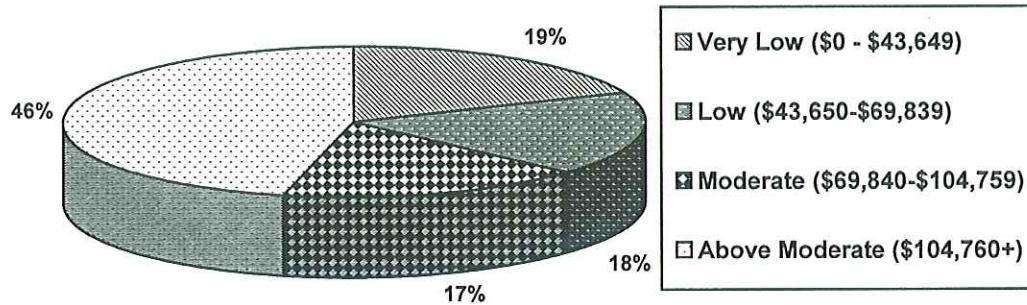
Low-income = 50.1% to 80% of the Santa Clara County median income (\$43,560 - \$69,839).

Moderate-income = 80.1% to 120% of the Santa Clara median income (\$69,840 - \$104,759).

Above Moderate-income = 120.1% or more of the Santa Clara County median income (\$104,760).

Figure 4

2001 Morgan Hill Income Distribution



Source: Claritas, 2001.

Poverty

The poverty level of income is a federally defined measure of the minimum income needed for subsistence living. The poverty level is an important indicator of severe financial distress, and the rate of poverty in a community (proportion of the population with poverty level incomes or less) provides important information about individuals and families in greatest financial need. The dollar threshold for poverty is adjusted each year by the Federal government for household size and composition. Table 4 provides 2000 poverty thresholds for several types of households. The Census Bureau only provides one nationwide figure for poverty and does not provide a separate poverty threshold specific to the City of Morgan Hill or Santa Clara County.

Table 4

Poverty Thresholds (2000)

Single Person 65+	\$8,259	Two Adults, One Child	\$13,861
Single Person Under 65	\$8,959	One Adult, Three Children	\$17,524
Two Persons 65+	\$10,409	Two Adults, Two Children	\$17,463
Two Persons Under 65	\$11,531	One Adult, Four Children	\$20,236
One Adult, Two Children	\$13,874	Two Adults, Three Children	\$20,550

Source: 2000 U. S. Census.

According to 1990 Census data, 5 percent of the City's population had incomes below the federally defined poverty level (Table 5). The rate of poverty in Morgan Hill was well below the countywide and statewide rates, indicating that even many low-income residents in the City are relatively better off than those in Santa Clara County. Female-headed households were most likely to have poverty level incomes, followed by persons

of other ethnicities and persons of Hispanic origin. Poverty among these groups was more than double that of the population as a whole in Morgan Hill. The poverty rate among female-headed households was over six times that of other households with children. Likewise, persons of Hispanic origin had twice the poverty rate of nearly all other races, with the exception of Blacks. Households with persons of Asian origin and married-couple families were least likely to have poverty level incomes. Between different age groups, poverty rates were fairly even. Children had a 1 to 2 percent higher rate than adults and seniors. The City had a 5 percent poverty rate among the total population and total households. The elderly and non-elderly groups also had 5 percent poverty rates each. Those with lower poverty rates include adults, non-female headed households with children, Asian/Pacific Islanders, Native Americans, and Whites. Those above the City poverty rate include children, female-headed households with children, Blacks, Hispanics, and Others.

By comparison, slightly less than 8 percent of the County's population was below the poverty level. Patterns of poverty were similar countywide as in Morgan Hill—groups with highest and lowest poverty rates were similar. Census data for the State revealed that approximately 18 percent of the total population was below the poverty level in 1990, although statewide poverty levels have declined substantially over the past two years. Even so, the City's poverty rate is still nearly one-fourth of the statewide rate.

Table 5

Morgan Hill 1990 Poverty Rates

Group	Above Poverty Level	Below Poverty Level	Poverty Rate
Elderly	1,592	78	5%
Non-Elderly	18,972	978	5%
Children	6,585	384	6%
Adults	15,779	672	4%
Female Householders w/Children	594	149	20%
Householders w/Children	295	8	3%
Married Couple Families	5,173	60	1%
Black	319	27	8%
Asian/Pacific Islander	1,199	19	2%
Hispanic	4,754	581	11%
Native American	178	6	3%
Other	1,877	290	13%
White	18,791	714	4%
Total Population	22,364	1,056	5%
Total Households	7,502	356	5%

Source: 1990 U.S. Census.